

**AR60**

# **NEW NORTH**

## **Resources Ltd.**

Winstanley Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

**1996 Annual Report**



---

# Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of New North Resources Ltd. will be held in the Meeting Room of Sun Life Plaza West Tower on the 3rd floor, 144 - 4th Avenue S.W., Calgary, Alberta on Tuesday, the 17th day of June, 1997 at 10:00 a.m. (local time).

---

## Contents

Corporate Profile .....	1
Corporate Highlights .....	1
Report to the Shareholders .....	2
Report on Operations .....	3
Management Report .....	4
Auditors' Report .....	4
Financial Statements .....	5 - 6
Notes to Financial Statements .....	7 - 8
Corporate Information .....	Inside Back Cover

---

## Abbreviations

BBL -	barrels
BOPD -	barrels of oil per day
MCF -	thousand cubic feet
MCF/D -	thousand cubic feet per day

All sums of money are expressed in Canadian dollars.



## Corporate Profile

New North Resources Ltd. is a Calgary based junior oil and natural gas corporation, engaged in the acquisition, exploration, development and production of medium to light gravity crude oil and natural gas reserves in Alberta.

New North was incorporated pursuant to the Alberta Business Corporations Act on May 9, 1994. The Corporation successfully completed a prospectus offering of shares pursuant to Alberta Securities Commission Policy 4.11 as a Junior Capital Pool company in September of 1994 and commenced trading its common shares on The Alberta Stock Exchange on October 4, 1994. New North closed its major transaction on April 17, 1996 after the shareholders authorized the acquisition by the corporation of certain producing and prospective oil and gas properties located in Alberta. On April 29, 1996, New North commenced trading on The Alberta Stock Exchange as a fully qualified junior oil and gas company.

The Company's primary corporate objective is to achieve growth and enhance shareholder value through timely acquisitions and prudent financial management.

## Corporate Highlights

### Financial (\$)

	<u>1996</u>	<u>1995</u>
Gross Production Revenue	\$ 204,203	\$ 7,684
Cash Flow From Operations	132,394	(3,320)
Per share	0.03	—
Net Earnings (Loss)	94,047	(15,326)
Per share	0.02	—
Capital Expenditures	489,119	12,006
Bank Debt	210,000	—
Shareholders' Equity	301,209	180,162

### Operations

#### Production (Sales)

Oil and NGL	Total (BBL)	6,549	291
	Per Day (BOPD)	18	.8
	Average Price (Cdn. \$)	\$ 25.99	\$ 22.83
Natural Gas	Total (MCF)	32,307	—
	Per Day (MCF/D)	88	—
	Average Price (Cdn. \$)	\$ 1.73	—

### Common Shares

Shares traded	930,500	399,300
Value traded	\$ 173,548	\$ 62,400
Share Price (\$)		
High	.30	.20
Low	.14	.12
Close	.23	.135
Number of Shares Outstanding at Year End	4,470,000	4,200,000

---

## Report to the Shareholders

We are pleased to report that 1996 was a busy and fulfilling year for New North Resources as several objectives were successfully accomplished.

At a special meeting of shareholders of the Company held on March 19, 1996, the shareholders authorized the acquisition by New North of certain producing and prospective oil and gas properties located in Alberta. This acquisition, made effective January 1, 1996, constituted the Company's major transaction as prescribed by the Alberta Securities Commission and The Alberta Stock Exchange. Closing of the major transaction took place on April 17, 1996 and The Alberta Stock Exchange issued a Bulletin to the effect that New North would no longer be considered a Junior Capital Pool Company at the opening of business on April 29, 1996.

On April 2, 1996, Yorkton Securities Inc. exercised its agent's option to acquire 270,000 shares in the capital stock of the Company at an exercise price of \$0.10 per share, resulting in a \$27,000 payment to New North.

Early in the year, a bank line of credit was authorized for \$300,000, most of which was required to complete the major transaction. At year-end, the bank loan outstanding was \$210,000. Cash flow from operations reduced the outstanding loan by \$70,000 while still providing the cash required for certain land acquisitions which occurred in the latter part of the year. These acquisitions are the result of an ongoing program of identification and evaluation of low risk oil and gas prospects.

The business climate in Alberta in 1996 was very favourable for the oil and gas industry. Low inflation and interest rates, steady product prices and a highly skilled workforce all contributed to the success achieved in 1996 by all sectors of the industry and we look forward to another excellent year in 1997.

At this time, I would like to express my thanks to the directors, officers and management team for the significant contributions they all made in transforming New North from a Junior Capital Pool Company into a fully qualified junior oil and gas company.

New North continues to be dedicated to enhancing shareholder value through prudent and timely land acquisitions and by diligent control of general and administrative costs.

On behalf of the Board of Directors,



Thomas J. (Jack) Hall  
President and Chairman of the Board

May 2, 1997



# Report on Operations

## Swan Hills South

During the year, New North acquired a 54% working interest in 320 acres in the Swan Hills area of central Alberta. There is currently a company operated producing oil well and single well battery on this acreage located at 12-35-65-10 W5M. The well produced 7,600 gross barrels of oil in 1996 (4,102 net to the Company), averaging 20.7 barrels per day (11.2 net) at \$29.16 per barrel (\$23.07 per barrel after royalties). Production costs averaged \$4.67 per barrel for a net back of \$18.40 per barrel of oil for the year.

## Sundre

Through its major transaction, New North acquired working interests varying from 6.09% to 16.25% in two sections (1,280 acres) of land in the Sundre gas pool of southern Alberta. The 2-22 and 14-15-34-5 W5M wells are currently producing gas from the Caroline Basal Mannville MU #3 pool, which gas is processed at the Altana gas plant and contracted to spot gas sales. The wells produced 32,205 mcf of gas (net) and 2,445 bbls of NGL (net) during 1996 for total revenue net of royalties of \$80,632. Production costs totalled \$15,461 for a net operating income of \$65,171 from the Sundre property.

## New Prospects

During the latter part of the year, the Company acquired a 50% interest in two non-producing Alberta Crown petroleum and natural gas leases comprising two sections of land in the Enchant area of Alberta and, subsequent to year-end, acquired a 50% interest in two sections of land in the Byemore area of Alberta.

### ALBERTA



LEGEND	
Swan Hills ○	Byemore □
Sundre ○	Enchant □

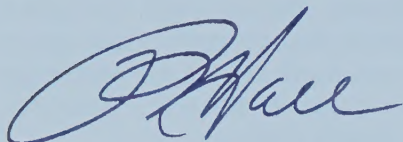
---

## Management Report

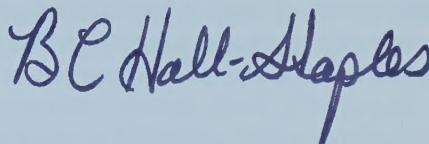
Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

The Company maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Thomas Jack Hall  
President and  
Chief Executive Officer



Bonnie C. Hall-Staples  
Secretary-Treasurer and  
Chief Financial Officer

---

## Auditors' Report to the Shareholders

We have audited the balance sheets of New North Resources Ltd. as at December 31, 1996 and 1995 and the statements of earnings (loss) and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Canada  
March 20, 1997



# NEW NORTH RESOURCES LTD.

Balance Sheets

December 31, 1996 and 1995

	1996	1995
<b>Assets</b>		
Current Assets:		
Cash and term deposits	\$ —	\$ 173,464
Accounts receivable	81,577	1,703
	81,577	175,167
Property, plant and equipment:		
Petroleum and natural gas properties	613,651	124,532
Less accumulated depletion and depreciation	(150,879)	(112,532)
	462,772	12,000
	\$ 544,349	\$ 187,167

## Liabilities and Shareholders' Equity

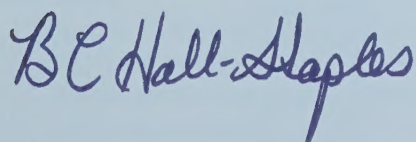
Current liabilities:		
Bank loan (note 3)	\$ 210,000	\$ —
Accounts payable and accrued liabilities	33,140	7,005
	243,140	7,005
Shareholders' equity:		
Common shares (note 4)	321,496	294,496
Deficit	(20,287)	(114,334)
	301,209	180,162
	\$ 544,349	\$ 187,167

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

## NEW NORTH RESOURCES LTD.

Statements of Earnings (Loss) and Deficit  
Years ended December 31, 1996 and 1995

	1996	1995
Revenue:		
Petroleum and natural gas	\$ 226,198	\$ 7,783
Royalties	(50,645)	(99)
Alberta Royalty Credit	28,650	–
	204,203	7,684
Other income	3,339	11,122
	207,542	18,806
Expenses:		
Operating	38,653	9,195
Interest	20,540	–
General and administrative	15,955	12,931
Depletion and depreciation	38,347	2,006
Write-down of petroleum and natural gas properties	–	10,000
	113,495	34,132
Earnings (loss)	94,047	(15,326)
Deficit, beginning of year	(114,334)	(99,008)
Deficit, end of year	\$ (20,287)	\$ (114,334)
Basic earnings (loss) per share	\$ 0.02	\$ –

See accompanying notes to financial statements.

## NEW NORTH RESOURCES LTD.

Statements of Changes in Financial Position  
Years ended December 31, 1996 and 1995

	1996	1995
Cash provided by (used in):		
Operations:		
Earnings (loss)	\$ 94,047	\$ (15,326)
Items not involving cash:		
Depletion and depreciation	38,347	2,006
Write-down of petroleum and natural gas properties	–	10,000
	132,394	(3,320)
Change in non-cash working capital	(53,739)	3,573
	78,655	253
Financing:		
Increase in bank loan	280,000	–
Repayments of bank loan	(70,000)	–
Share issue	27,000	500
	237,000	500
Investments:		
Acquisition of property, plant and equipment (note 2)	(443,700)	–
Additions to property, plant and equipment	(45,419)	(12,006)
Change in non-cash working capital	–	(15,959)
	(489,119)	(27,965)
Increase (decrease) in cash and term deposits	(173,464)	(27,212)
Cash and term deposits, beginning of year	173,464	200,676
Cash and term deposits, end of year	\$ –	\$ 173,464
Basic cash flow from operations per share	\$ 0.03	\$ –

See accompanying notes to financial statements.



# NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1996 and 1995

---

New North Resources Ltd. (the "Company") was incorporated on May 9, 1994 and commenced operations in September, 1994. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Alberta.

## 1. Significant accounting policies:

### (a) Joint interest operations:

A significant portion of the Company's petroleum and natural gas acquisition, exploration, development and production activities are conducted with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

### (b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, plant and production equipment costs and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated by the unit of production method based on estimated gross proven reserves. Natural gas sales and reserves are converted to equivalent units of petroleum using their relative energy content.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The total capitalized costs, less accumulated depletion and depreciation, future site restoration and deferred income taxes, are limited to an amount equal to the estimated future net revenue from production of proven reserves, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, future site restoration and taxes.

### (c) Future site restoration costs:

Estimated future site restoration costs are provided for using the unit-of-production method based on estimated gross proven reserves. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual expenditures incurred are applied against deferred future site restoration costs.

## 2. Major transaction:

Pursuant to regulatory requirements of a Junior Capital Pool Company, a major transaction must be entered into before the issued shares of the Company can be listed for trading on The Alberta Stock Exchange. The Company closed its major transaction on April 17, 1996 after the shareholders authorized the acquisition of producing and prospective petroleum and natural gas properties in the Sundre, Swan Hills, Alderson and Inland areas in Alberta at a Special Meeting of Shareholders held on March 19, 1996. The Company acquired these interests in petroleum and natural gas properties from a corporation controlled by an officer of the Company. The purchase price in the amount of \$443,700 was based on an externally prepared reserve evaluation.

## 3. Bank loan:

In 1996, the Company arranged a demand operating credit facility in the amount of \$300,000 with a Canadian chartered bank which bears interest at the bank's prime rate. The facility is guaranteed by a corporation controlled by an officer of the Company. Although the facility is of a demand nature, principal repayments are being made as funds become available.

The Company anticipates negotiating a term repayment schedule on the facility during 1997.



# NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1996 and 1995

## 4. Share Capital:

### (a) Authorized:

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

### (b) Issued:

	Number	Amount
Balance, January 1, 1995	4,200,000	\$ 293,996
Share issue costs reduction	—	500
Balance, December 31, 1995	4,200,000	294,496
Issued for cash on exercise of agent's options	270,000	27,000
Balance, December 31, 1996	4,470,000	\$ 321,496

### (c) Share options:

The Company has a share option plan for its directors and officers and has granted options to purchase 420,000 common shares at a price of \$0.10 per share until June 17, 1999.

## 5. Income taxes:

The differences between the expected income tax provision based on the combined Canadian federal and provincial statutory income tax rate of approximately 44.6% and the amount actually provided are as follows:

	1996	1995
Expected income taxes (recovery)	\$ 41,945	\$ (6,835)
Resource allowance	(18,400)	—
Alberta Royalty Credit	(12,778)	—
Non-deductible Crown payments	17,400	44
Benefit of unrecognized tax losses	(28,167)	—
Unrecognized tax losses	—	6,791
	\$ —	\$ —

At December 31, 1996, the Company has resource tax pools of \$449,345 and share issue costs of \$39,190 available to apply against future years' taxable income.

## 6. Fair value of financial assets and liabilities:

The carrying value of cash, term deposits, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity or demand nature of the instruments.

## 7. Related party transactions:

A corporation controlled by an officer of the Company participates in certain farmout, participation, joint venture and other similar agreements with the Company.



---

# Corporate Information

## Directors

J. Dawn Browne,  
Calgary, Alberta (1)

Robert S. Clegg,  
Calgary, Alberta (1)

Thomas Jack Hall,  
Calgary, Alberta

Bonnie C. Hall-Staples,  
Calgary, Alberta (1)

(1) Audit Committee

## Officers

Thomas Jack Hall  
President

Bonnie C. Hall-Staples  
Secretary-Treasurer

## Head Office

Suite 1250 Sun Life Plaza III  
112 - 4th Avenue S.W.  
Calgary, Alberta  
T2P 0H3

Telephone: (403) 294-7250  
Fax: (403) 294-7272

## Auditors

KPMG  
Chartered Accountants  
1200 Bow Valley Square Two  
205 - 5th Avenue S.W.  
Calgary, Alberta  
T2P 4B9

## Registrar and Transfer Agent

Montreal Trust  
6th Floor, 530 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 3S8

## Solicitors

Howard, Mackie  
1000 Canterra Tower  
400 - 3rd Avenue S.W.  
Calgary, Alberta  
T2P 4H2

## Banker

Bank of Montreal  
350 - 7th Avenue S.W.  
Calgary, Alberta  
T2P 3N9

## Stock Exchange Listings

The Alberta Stock Exchange  
Trading Symbol Common Shares: NNT



